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## **INTRODUCTION**

The Office of Internal Audit performed an audit of McNichols/Goddard District, Wayne County FIA for the period January 1, 1999 through March 26, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. McNichols/Goddard District had 80 full time equated positions (FTE's) at the time of our review. McNichols/Goddard District provided assistance to an average 12,265 recipients per month during FY 1998, with total assistance payments of \$22,865,909 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the McNichols/Goddard District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Medical Transportation	Phone Charges
ENP Payments	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the McNichols/Goddard District's internal controls need improvement in order to ensure that they are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **DISTRICT OFFICE RESPONSE**

The management of the McNichols/Goddard District has reviewed all findings and recommendations included in this report. They indicated in a telephone conversation on May 4, 1999 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the McNichols/Goddard District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Checks Received for Deposit**

1. McNichols/Goddard District did not use the Daily Mail Record of Cash Receipts for Deposit (FIA-4729) to record checks received in the mail for deposit, as required by Accounting Manual Item 433. Use of the FIA-4729 helps to ensure that all necessary information is recorded for items received in the mail, and deposited in the bank.

WE RECOMMEND that McNichols/Goddard District use the FIA-4729 to record items received in the mail for deposit in the bank.

#### Supporting Documentation for Payments

2. McNichols/Goddard District did not always attach supporting documentation to the Authorization/Invoice (FIA-849) on file in the Accounting Office, as required by Accounting Manual Item 404. An original invoice or other supporting documentation was not attached for 14 of the 56 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that McNichols/Goddard District attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

#### Check Signing

3. McNichols/Goddard District did not properly separate the cash disbursements duties. Our review disclosed that the same employee who signs checks also has access to the blank check inventory. Accounting Manual Item 410.1 states that for internal control purposes, the person operating the check signing machine must not have access to the supply of blank checks.

WE RECOMMEND that the McNichols/Goddard District have an employee who does not have access to the blank checks operate the check signing machine.

#### Sign-O-Meter Record

4. McNichols/Goddard District did not prepare the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1, but used an in-house log instead to record the check numbers and the meter readings. Use of the Sign-O-Meter and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that McNichols/Goddard District use the Sign-O-Meter record and reconcile it to the Check Register each month.

#### Monthly Closing of Books

5. McNichols/Goddard District did not close its books monthly, as required by Accounting Manual Item 402. As of March 1, 1999, the month of November was the last month closed per the Monthly Closing Menu. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that McNichols/Goddard District close its books each month when the monthly reports are prepared.

#### Medical Transportation

6. McNichols/Goddard District did not have completed Medical Needs Authorizations (FIA-54A) on file for 18 out of 19 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that McNichols/Goddard District Office ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

#### MA-010 Reconciliation

7. McNichols/Goddard District did not reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that McNichols/Goddard District reconcile the flagged transactions on the MA-010 to the supporting documentation.

#### Designated Staff Person

8. McNichols/Goddard District did not have a Designated Staff Person (DSP) for handling confidential information received from the Internal Revenue Service (IRS), as required by Program Administrative Manual (PAM) Item 800. A DSP is necessary to ensure that information received from the IRS is kept confidential. Breach of confidentiality could result in the department being denied access to IRS information.

WE RECOMMEND that McNichols/Goddard District appoint a Designated Staff Person to handle confidential information received from the IRS.

#### IRS Data Control Sheet

9. The McNichols/Goddard District did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the District, as required by PAM Item 800. Completion of the FIA-4488 is necessary to document that the District is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that the McNichols/Goddard District record all FIA-4487A's received on the FIA-4488.

#### Password for IRS Information

10. McNichols/Goddard District did not have the DSP password and ID customized through the Client Information System (CIS) for retrieving information through the IEVS system for confidential IRS information. PAM Item 800 describes the process for obtaining information through use of the password. The local office may need to obtain information if a client or client representative requests replacement of a FIA-4487A.

WE RECOMMEND that McNichols/Goddard District customize the DSP's status on CIS to obtain IRS information from CIS.

#### Knowledge of IRS Security Procedures

11. Mail room and Assistance Payments (AP) staff at McNichols/Goddard District were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that McNichols/Goddard District familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

#### Separation of Duties - Accounts Receivable



12. McNichols/Goddard District was not properly separating duties in the accounts receivable function. One clerk was responsible for the entire accounts receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that McNichols/Goddard District either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at the McNichols/Goddard District, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### **CIS Status Codes**

13. Seven supervisors had FIS status and three clerical staff had FLM status on the Client Information System (CIS) at the McNichols/Goddard District. These status codes allow the supervisors to open cases without independent review, and the clerical staff to make changes to client cases, and then process payments to those same cases. We also found that four supervisors and two section managers had BUR status. This status would allow the supervisors and section managers to process case transactions without an independent review.

WE RECOMMEND that the McNichols/Goddard District either change the fiscal clerk, supervisors, and section managers to inquiry only status on CIS, or customize their status

status codes on CIS to ensure they are not able to process transactions that may conflict with the duties of their jobs.

#### Backup Designated Staff Person

14. McNichols/Goddard District did not have a backup Designated Staff Person (DSP) for IRS Security. A backup DSP is needed in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that McNichols/Goddard District appoint a backup DSP for IRS information security.

#### MA-010 Reconciliation - Openings and Reopenings

15. McNichols/Goddard District did not reconcile a sample of new case openings and reopenings listed on the MA-010 Report to the case record documentation and the Monthly Intake Worker Activity Report (MH-132) as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings and reopenings provides assurance that cases were opened only by their assigned workers.

WE RECOMMEND that McNichols/Goddard District reconcile a sample of case openings and reopenings on the MA-010 Report to the MH-132.

#### Signatory Authority

16. McNichols/Goddard District did not have a signature card on file for the Acting District Manager and other designees to sign checks. The District Manager's name was on the signature plate which was used to sign checks, even though she was on an extended medical leave. For internal control purposes, the signature plate should bear the name of

the person currently responsible for signing checks, and the Acting District Manager and other designated check signers should complete a new signature card to be kept on file with the bank.

WE RECOMMEND that McNichols/Goddard District obtain a current signature plate, and prepare a new signature card for the personnel responsible for signing checks at the district.